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PRESS RELEASE

DESPITE UNCERTAINTY AND VOLATILITY, CHINA'S REFORMS COULD TRIGGER SIX WORLD-SHAKING CHANGES, SAYS AB

SYDNEY, July 28, 2015—One of the biggest risks facing investors concerned about weak growth and market volatility in China is that they could be underestimating the country's upside potential, research by global asset manager AllianceBernstein (AB) suggests.

“Global investors have been understandably transfixed by the recent gyrations in China's equity markets,” said the authors of the firm's latest research white paper, *Future Shock: How China's Reforms Are Creating Disruptive Risks (and Opportunities)*.

“Add to this the fact that the country's growth continues to slow and the government faces immense challenges in implementing its reform programme, there can be little doubt that China poses short-term risks to investors.

“But just as it would be naïve to overlook the potential downside for China, so it would be easy, in our view, to focus on the negatives and ignore the positives.

“These include China's extraordinary capacity to marshal its social and economic resources in the pursuit of its policy objectives—an attribute which, since 1978, has enabled the country to lift more than 500 million people out of poverty.¹”

The paper, by **Hayden Briscoe**, Director—Asia-Pacific Fixed Income, **Anthony Chan**, Asian Sovereign Strategist—Global Fixed Income Research and **Stuart Rae**—Chief Investment Officer, Asia-Pacific ex Japan Value Equities, seeks to add balance to the frequently negative public debate about China's economic and investment prospects.

According to the research, six globally disruptive changes are likely to result from China's reform programme if—as the authors believe is likely—it proceeds to plan:

- China's currency, the renminbi, will become almost as important as the US dollar as a global trade settlement currency, and on par with the Swiss franc as an international reserve currency for Asian banks
- Economic growth of 5%–6% a year—well below the double digits of the past—will become normal for China; far from being deterred, however, international investors will be attracted to the economy's greater stability and diversity

¹ World Bank, China Overview, March 2015

- Investors will need to make big changes to their portfolios when China is included in global market indices (the full inclusion of China shares in global equity indices, for example, will increase China's share of emerging market indices from around 20% to 30%)
- Investors who are early to the China opportunity will do well from sector plays such as consumer cyclicals and staples, healthcare and financial services. After the initial rush, the market will become less volatile and opportunities will be found in stock selection
- China's manufacturers will innovate and move up the value chain so that "Made in China" will become a badge of superior, rather than inferior, product quality. Its consumers will set trends that those in the West—particularly the young—will want to follow
- The country's push to exercise "soft power" through institutions such as the new Asian Infrastructure Investment Bank will lead to geopolitical realignments, particularly in Eurasia and some parts of Eastern Europe, and to new investment opportunities in those regions.

The authors sound a note of caution, however, observing that these disruptive changes will need to take place in the next two or three years for investors to be confident that China is indeed on track to complete the reform process which, they believe, will take a decade or more.

"Given the pace of China's reforms to date—which has outrun many people's expectations and surprised even us on occasion—we believe that the country has a better-than-even chance of turning its aspirations into reality," said the authors.

"We believe that the best way for investors to position themselves ahead of such an event is to devote even more effort to researching the risks and opportunities that China represents."

A copy of the white paper is available [here](#).

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